

SAN DIEGO COUNTY SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

NOVEMBER 2002

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2002/077

November 27, 2002

TO COUNTY ASSESSORS:

SAN DIEGO COUNTY
SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

A copy of the San Diego County Supplemental Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Gregory Smith, San Diego County Assessor-Recorder-Clerk, was provided a draft of this report and elected to file a written response to its findings and recommendations. Pursuant to Government Code section 15646, this report is distributed to the Governor, the Attorney General, the State Legislature, and the San Diego County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed fieldwork for this supplemental survey of the San Diego County Assessor's Office during December 2001. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Smith and his staff for their cooperation and patience during this assessment practices survey.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office at five-year intervals and publishes a report of its findings.

The most recent assessment practices survey report for San Diego County was published April 28, 2000. That report included the assessor's initial response to the recommendations contained in the report.

The BOE has also elected to conduct supplemental surveys for the ten largest counties and cities and counties. These surveys, conducted at least one year after publication of the original report, are made to determine the extent to which the assessor has implemented the recommendations contained in the original report. This report reflects the BOE's findings in its supplemental survey of the San Diego County Assessor-Recorder-Clerk's Office.¹

¹ This report covers only the functions of the assessor.

SCOPE OF SUPPLEMENTAL SURVEY

A supplemental assessment practices survey is not an audit of the assessor's entire operation. We confined our review to the assessor's efforts to implement the recommendations made in our April 2000 survey report; we did not explore new issues.

Our supplemental survey of the assessor's office included review of the assessor's written response to the recommendations contained in the survey report, review of the assessor's current records pertaining to those recommendations, and interviews with the assessor and his staff. This report evaluates progress the assessor has made in addressing the problems identified in our survey report published in April 2000. It also notes areas where problems persist.

EXECUTIVE SUMMARY

In our April 2000 San Diego County Assessment Practices Survey, we made nine recommendations for changes to the following areas of the real property assessment program: new construction, California Land Conservation Act, possessory interests, manufactured homes, and water company properties. The assessor has fully implemented three of these recommendations, partly implemented four, and not implemented two of them. The following summarizes the assessor's actions in response to our recommendations:

- Through implementation of a new computer program integrated with other county and city agencies, the assessor has significantly improved his ability to account for and track all building permits issued.
- The assessor has solicited agricultural production and income and expense information from owners of land subject to California Land Conservation Act (CLCA) contracts and has reflected this new information in restricted valuations of this land for the 2001-02 assessment roll.
- To enable his discovery and assessment of all taxable possessory interests, the assessor now receives complete information from the United States Forest Service (USFS) concerning private uses of land within the Cleveland National Forest.
- The assessor continues to classify manufactured homes as improvements. We found that special assessments have been inappropriately levied against some manufactured homes.
- Although individual appraisal records do not document the source of costs used to value manufactured homes, the assessor now relies on BOE unit cost factors to value manufactured homes.
- The assessor now utilizes the BOE-prescribed *Change in Ownership Statement*, although he should revise his taxpayer notification and declaration forms.
- When assessing sand and gravel properties, the assessor still does not utilize a total unit comparison. This oversight may lead to incorrect fixture valuation.
- The assessor has discontinued developing an income approach indicator for regulated private water companies in the county. However, the assessment of the company should be carefully reviewed for possible double assessment of business personal property.
- The assessor has identified and canvassed all private and mutual water systems in the county but has not yet assessed escaped new construction discovered during the field inspection.

We also made eight recommendations for changes to five areas of the assessor's personal property and fixture assessment programs: the audit program, valuation factors, leased equipment, racehorses, and vessel/aircraft assessments. The assessor has fully implemented three of the recommendations, partly implemented two, and not implemented two. One of our

recommendations has been rendered obsolete. The following summarizes action taken by the assessor in these areas:

- Although it may take several years to achieve current status, the assessor has directed more staff resources to mandatory audit production and plans to hire two additional auditor-appraisers in the 2002-03 fiscal year.
- The assessor continues to perform some nonmandatory audits each year but has not expanded the program as we originally recommended.
- Although the assessor continues to average index factors for business property, the BOE has now adopted this practice. Therefore, this recommendation is no longer relevant.
- Leased equipment costing \$50,000 or more will now be tracked through a new computerized system to ensure that it does not escape assessment. However, equipment costing less than \$50,000 will not be investigated.
- Racehorses subject to mandatory audit have been audited.
- Vessels and aircraft assessments subject to mandatory audit have been identified and are now receiving desk audits.
- Applicants for the historical aircraft exemption are now required to either submit a notarized affidavit or execute the affidavit in the presence of a deputy assessor.
- Documented vessels are now granted 80 percent of the 96 percent exemption when vessel owners submit annual claim forms after the statutory filing deadline.

REAL PROPERTY VALUATION AND ASSESSMENT: RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the original recommendations from our 2000 survey report and the assessor's responses to them. After each recommendation, we report the current status of the assessor's effort to implement the recommendation, as noted during our supplemental survey fieldwork.

New Construction

RECOMMENDATION 1: Review or spot-check building permits from non-automated permit-issuing agencies.

Assessor's Response:

Concur. The Assessor's permit system is being reviewed for possible revisions for better standardization and accountability. Procedures for random sampling and spot-checking for all permit-issuing agencies will be established as a part of this process. Although we are confident that we are receiving all of the building permits that add value to a property, we will spot-check each city as recommended.

Current Status:

Four of the permit-issuing jurisdictions (the cities of San Diego, Carlsbad, and Chula Vista, and the county of San Diego) transmit data for every permit to the assessor's office through a program known as Building Permit Information System (BPIS). With this permit data, the assessor's computer system creates a *Permit Data Sheet*, the basic work document that initiates appraisal activity to value and enroll the resulting new construction. The computer system also automatically generates an owner's declaration of new construction. The assessor sends that declaration to capture new construction information without requiring a field visit by an appraiser.

The assessor is confident that, with these completed and pending refinements to his building permit information system, data are received on all permits issued in the county. It should be noted that the four issuing jurisdictions presently included in the BPIS account for approximately 80 percent of all permits issued. The remaining 15 entities issue only 20 percent of the total volume of building permits.

In early 2001, the assessor developed a plan to verify that he was receiving all building permits issued by the 15 jurisdictions that are not part of the BPIS automated system. This plan involved creating a spreadsheet listing all the permits actually received. The permit tracking spreadsheet captures data including the issuing agency, the permit number, issue date, assessor's parcel number, and the disposition of the permit (e.g., add to assessor's permit data system, assign to appraiser, cull the permit for various reasons, assign to business division, or forward to the BOE). Review of the spreadsheet data can identify gaps in the permit-numbering sequence, which would result in follow-up by the assessor. Clerical support staff would initiate contact with the city building inspection officials to account for the apparently-missing permits.

The assessor has taken other steps to improve the reliability of permit data collection. Both a supervising real property appraiser and the realty division chief have joined the International Conference of Building Officials (ICBO), an organization that includes representatives of all the permit-issuing agencies within San Diego County. By attending regular ICBO meetings, the assessor encourages good relations between his office and the cities and also educates the officials about the importance of transmitting all building permit data to the assessor's office.

Of the remaining 15 cities in San Diego County that are not part of the automated BPIS, 11 supply electronic files to the assessor, usually created in spreadsheet programs. Such spreadsheets improve the assessor's ability to account for all permits issued. Four smaller cities (Poway, San Marcos, Santee, and Solana Beach) still send the assessor paper copies of permits they issue.

Finally, the assessor has recognized the need to receive permit information from the San Diego County Division of Environmental Health for wells, dry cleaning ventilation systems, and toxic waste disposal facilities. The assessor intends to incorporate this information into the building permit data management software so that the staff in both the real property and business property divisions can discover new businesses and related new construction.

The assessor has fully implemented this recommendation.

California Land Conservation Act Properties

RECOMMENDATION 2: Update income information periodically.

Assessor's Response:

Concur. Our office will take a proactive approach to obtaining data directly from individual growers in the Agricultural Preserve program, as the primary source for lease information. To that end, an "Income and Expense-Agricultural Preserves Statement" has been designed and will be mailed out annually. We will utilize this statement beginning this appraisal year, for the purpose of obtaining current data for valuing these properties. The prior method of obtaining this data was to contact the County of San Diego Agricultural Department, City of San Diego, and the U. S. Bureau of Land Management. These sources have proven to be very effective in the past and will continue to be used to obtain additional market data in the future.

Current Status:

The assessor has developed an income and expense statement for properties in agricultural preserves. It was first mailed to the approximately 350 CLCA landowners in June 2000 but was not sent out in 2001. About 180 questionnaires (approximately 50 percent) were returned. Of these, only 72 yielded useful information, concerning 1,569 acres planted to avocados, navel oranges, grapefruit, limes, lemons, persimmons, peaches, and apples. The principal appraiser responsible for CLCA assessments has prepared a spreadsheet of data based on the statements. This data was considered when preparing restricted CLCA land and living improvements (primarily avocado and citrus trees) values for the 2001-02 assessment roll.

Most of the CLCA landowners in San Diego County are owner-operators who hire an orchard manager to tend their avocado, lemon, and orange groves. Very few, if any, lease land from other persons. Hence, the income and expense questionnaires yielded little useful information about economic land rents, although some production data was gleaned from them.

The assessor has fully implemented this recommendation.

Possessory Interests

RECOMMENDATION 3: Request that the county counsel make a demand for possessory interest lease information from the United States Forest Service.

Assessor's Response:

Concur. Our office will request County Counsel to make a demand for possessory interest lease information from USFS as recommended. It should be noted that the Assessor's Office has received information of all transfers and new leases from the USFS. The only information lacking from their notification was the owner's name and address. We have always been able to obtain the information required to properly bill the owners from a variety of other sources. Therefore, this has not been a problem.

Current Status:

In January 1999, the assessor contacted the United States Forest Service (USFS) office responsible for the Cleveland National Forest. This time, the USFS office supplied sufficient information on the nearly 300 private uses of national forest lands under its jurisdiction for the assessor to identify and enroll these taxable possessory interests.

An appraiser and a property assessment specialist work full-time on the possessory interest program. They annually contact nearly 150 public agencies to obtain information. When dealing with the USFS, the assessor sends a printed listing, extracted from his database, of all the prior year's reported private uses of USFS land. The USFS updates this listing and returns it to the assessor.

Although the assessor did not request that his county counsel write a letter to the USFS, he has fully implemented the substance of the recommendation. He now annually requests and receives from the USFS the necessary information he needs to properly identify and enroll taxable possessory interests in USFS land.

Manufactured Homes

RECOMMENDATION 4: Classify and enroll manufactured homes as personal property.

Assessor's Response:

Manufactured homes have always been treated as personal property and billed correctly in San Diego County. Due to limitations of our current system, these homes are carried on the Real Property assessment rolls. Manufactured homes are assigned a special series of parcel numbers

that allow the Auditor to assign unique tax rates. These unique tax rates exclude all special assessments. This procedure allows for these properties to be taxed as personal property, to receive supplemental tax bills, and to be indexed by the proper inflation factor as required by State law. San Diego County is in the process of implementing a new integrated property tax system that will include the Assessor, Auditor and Tax Collector. Our new system will allow mobile homes to appear as personal property on the regular tax bill.

Current Status:

The assessor continues to enroll manufactured homes as improvements on the secured roll. The new computer system that would allow manufactured homes to be enrolled as personal property has not been implemented.

The assessor has created special tax-rate area codes for manufactured homes in an attempt to prevent special assessments from being levied upon them. Most special assessments apply to land or land and improvements only, so if they are applied to manufactured homes, which are legislatively classified as personal property, an erroneous assessment results.

According to the auditor-controller's office, special districts continue to direct the auditor-controller to apply special assessments to all parcels within their districts' boundaries, including manufactured homes located in rental parks. The auditor-controller applies these assessments as directed by the special districts. The auditor-controller has no authority to cancel an erroneously applied assessment; only representatives of these districts may request this action.

It is the assessor's responsibility to correctly classify property. The assessor should enroll manufactured homes as personal property on the secured roll. However, since the assessor's current computer system cannot enroll manufactured homes as personal property, to prevent special assessments from being applied to manufactured homes, the assessor should edit lists of assessor's parcels before submitting them to special districts. If the assessor deleted from these listings the parcels identified as manufactured homes, there would be no chance that the special district would erroneously direct the auditor-controller to apply the special assessment to manufactured homes located within the special district's boundaries. The special numeric prefix used to identify manufactured homes on the assessor's assessment roll would readily enable identification and exclusion of manufactured homes.

The assessor has not implemented this recommendation.

RECOMMENDATION 5: Document on the appraisal record the source and value obtained from recognized manufactured home value guides.

Assessor's Response:

Disagree. The Assessor's policy is to use only the Kelley Blue Book Official Manufactured Housing Guide in valuing manufactured homes. Appraisers are directed to use the abbreviations ABM (Average Bench Mark), LBM (Low Bench Mark), and HBM (High Bench Mark). As a result, writing "Kelley Blue Book" on every manufactured home sales record is considered redundant and has no effect on the valuation of the manufactured home.

Current Status:

The assessor currently uses the *Kelley Blue Book Manufactured Housing Used Value Guide* to establish a quality class ranging from 1 through 5, then relates that classification to the unit costs for manufactured homes published by the BOE in Assessors' Handbook Section 531, *Residential Building Costs*. The assessor uses the BOE cost factors to value the manufactured homes, to ensure that in-park location value is properly excluded from the assessed value.

Appraisal records do not document the source of the value estimate. The assessor believes that since only BOE cost factors are used to value manufactured homes in San Diego County, there is no need to show this fact on the appraisal record.

The assessor has not implemented this recommendation. However, given the universal use of BOE cost factors, we agree that there is little need to document every record.

RECOMMENDATION 6: Mail a *Change in Ownership Statement* to taxpayers who do not return the *Mobilehome Owner's Declaration*.

Assessor's Response:

Concur. We are in the process of contracting with a programmer to implement the necessary software changes that will automatically send an official BOE prescribed change in ownership statement if the Mobilehome Owner's Declaration is not returned. We will modify the Mobilehome Owner's Declaration with the notice that the information is required under Revenue and Taxation Code section 480. Due to the fact that the appraisal is primarily based on the Kelley Blue Book, this change would have very little, if any effect on the valuation of mobile homes.

Current Status:

The assessor has revised the procedure for sending change in ownership statements to purchasers of manufactured homes. The procedure is as follows:

- (1) The assessor sends a cover letter and his locally developed form, *Manufactured/Mobilehome Owner's Declaration*, to the transferee requesting a response within 15 days.
- (2) If there is no response, the assessor sends the same package again, this time with "Second Notice" stamped on both documents, and a green card labeled "Important Notice."
- (3) If there is still no response, the assessor contacts the transferee or, in some cases, the mobilehome park manager, to determine whether there has been a subsequent change in ownership.

- (4) If there has been no subsequent transfer, the assessor sends another cover letter, a yellow "Final Notice" card, form BOE-502-A, *Change in Ownership Statement*, and another copy of the assessor's declaration form.
- (5) If there is still no response, the assessor enters the *Change in Ownership Statement* nonresponse penalty into the computer system.

Although the assessor's new procedure represents an improvement, there is one change we recommend: The assessor should not include the penalty language on the green "Important Notice" card in the mailing of the "Second Notice" package. The language on this card refers to a penalty for failure to file or to file timely, but that penalty can only be applied for failure to file a BOE-prescribed *Change in Ownership Statement*. The "Second Notice" package includes only the assessor's own declaration, which is not BOE-prescribed.

The assessor has partially implemented this recommendation.

RECOMMENDATION 7: Appraise mineral properties as a unit.

Assessor's Response:

Concur. In the future mineral properties will be valued as an appraisal unit and compared with the base year value to determine the proper enrollment. It has been our experience that most of the sand and gravel properties have very old base year values. This new procedure would not result in any significant value changes for these properties.

Current Status:

The assessor has not yet changed his procedure to reflect the specific requirements of rule 469(e)(2)(C). The mineral appraiser determines the taxable value of the mineral rights each year apart from the business personal property and fixtures. The business property division values the personal property and fixtures together. The assessor enrolls this value apart from the value determined by the mineral property appraiser. The business property division does not calculate a factored base year value for fixtures. Thus, the assessor does not treat a sand and gravel property as one appraisal unit, but rather as two separate units which are combined to make a single assessment.

Rule 469(e)(2)(C) defines the appraisal unit to include land, improvements (including fixtures) and reserves. The assessor must determine the current market value and factored base year value for this unit and enroll the lower of the two.

This recommendation has not been implemented.

Water Companies

RECOMMENDATION 8: Utilize the income approach to value for the appraisal of regulated private water companies.

Assessor's Response:

Concur. The income approach to value will be used for the appraisal of regulated water companies when annual reports are received from the California Public Utilities Commission. Although we agree that the income approach is a proper method, we feel that the difference between Historical Cost Less Depreciation and the income approach will not result in any significant differences in value.

Current Status:

There are now only two private water companies selling water in San Diego County. The third company mentioned in our prior survey was acquired by a municipal entity and is now tax exempt. For the 2000-01 assessment roll, the assessor developed a capitalized earning ability indicator for the water company that serves the city of Imperial Beach; however, he did not apply the income approach to the other regulated water company because it is very small, and adequate income and expense data was not available for this company. The value indicator developed for the large water company was difficult to correlate with the cost approach indicator and will not be utilized in the future.

We noted that the historical cost less depreciation indicator developed for the property of the private water company by the real property division includes business personal property that is also assessed by the business property division on two unsecured accounts. The assessor should carefully review the separate assessments to ensure that business personal property is not double assessed.

Because the assessor developed an income indicator for the regulated water company, he has fully implemented our recommendation.

RECOMMENDATION 9: Identify and assess all taxable improvements and water rights on water company property.

Assessor's Response:

Concur. A concerted effort will be made to identify and assess all taxable improvements and water rights on water company properties. It is unlikely that any missed improvements would have resulted in significant new assessments. Therefore, we chose to allocate our staff to higher priority items. The value of the majority of the mutual water companies is reflected in the value of the individual properties that they serve.

Current Status:

The assessor has obtained a listing of all tested drinking water sites in San Diego County from the county's environmental health department. During 2001, the assessor conducted a field inspection of all listed sites to identify taxable property that might have escaped assessment. The inspection was documented with digital photographs of water system improvements noted in the field. The data gathered from the inspection of over 150 water systems throughout the county, including the digital photographs, was entered into a spreadsheet. The assessor plans to import the water system data into a database.

For the 2002-03 assessment year, the business property division will mail form BOE-540-S, *Mutual or Private Water Company Property Statement*, to the owners of 152 water companies, and will also set up a business property account for each company. The assessor plans to enroll prior year escape assessments where appropriate, based on the property statements. The real property division plans to notify the business property division of any permits received for new construction involving a privately owned water company or system.

Although the assessor has completed the field inventory, at the time of our survey fieldwork in December 2001 no escape assessments had been made. We therefore conclude that the assessor has only partially implemented our recommendation.

BUSINESS PROPERTY VALUATION AND ASSESSMENT: RECOMMENDATION, RESPONSE, AND CURRENT STATUS

Following are the original recommendations from our 2000 survey report and the assessor's responses to them, followed by the current status of the assessor's efforts to implement the recommendations.

Audit Program

RECOMMENDATION 10: Bring the mandatory audit program to current status.

Assessor's Response:

Concur. We agree that our mandatory audit program is not current. As stated in the survey, we have experienced an increase in personal property appeals. Many of these appeals are handled by the audit staff. We have also experienced a staffing problem and are currently experiencing a problem filling vacant positions. We will continue to look for ways to meet the audit workload demands despite the appeals and staffing problems. Our goal has always been, and will continue to be, to complete all mandatory audits in a timely fashion.

Current Status:

In April 2000, a serious backlog of mandatory audits existed. We found that the mandatory audit program continues to struggle. Our prior survey indicated that 450 mandatory audits were carried over to the audit production cycle for the 1998-99 assessment year. For the 2001-02 assessment year, the mandatory audit workload consists of 1,368 mandatory audits (815 audits due as part of the normal four-year audit cycle and 553 audits carried over from prior years). Mandatory audit production has not kept up with the audit workload, and the program remains in serious arrears.

One major contributing factor to the mandatory audit production deficit is employee turnover. In recent years, the business property division's staff turnover rate has been about 50 percent. The rate of turnover has now decreased and, in addition, the level of staffing appears secure for the near future.

The assessor has implemented the following steps to increase mandatory audit production:

- Created two additional auditor-appraiser positions.
- Placed more emphasis on audit production. The assessor expects a range of 30-65 mandatory audits to be completed each year by each auditor-appraiser. This range takes into account experience, complexity, and special assignments.
- Placed focus on completion of the oldest audits first.

- Reorganized the business property division into three units, assigning one unit all of the appeals (except commercial aircraft), leaving the other two units to perform audits full time.
- Performed as many audits as possible through the mail (desk audits).
- Placed more audits with the California Counties Cooperative Audit Services Exchange (CCCASE).

The assessor has not fully implemented this recommendation, but he has launched a comprehensive program to address the backlog of mandatory audits.

RECOMMENDATION 11: Expand the nonmandatory audit program.

Assessor's Response:

We submitted detailed information to the audit team listing the non-mandatory audits performed in 1995 through 1998. The information indicates that we performed an increasing number of non-mandatory audits during this period: 1995 - 17 audits, 1996 - 27 audits, 1997 - 47 audits, and 1998 - 51 audits. Each year we request the appraisal staff to refer for audit any non-mandatory accounts they feel are not reporting correctly. These accounts are added to the audits for that year and are included in the numbers above. The figures illustrate that we are performing an increasing number of non-mandatory audits. Since our mandatory audit program is not current, (Recommendation #10), we feel that expansion of our non-mandatory audits beyond our current numbers is unrealistic at this time.

Current Status:

The assessor's business property division completed 42 nonmandatory audits for the 2000-01 assessment year. As of the date of our fieldwork for this report (December 2001), the assessor had not expanded the nonmandatory audit program.

Although we agree with the assessor that the mandatory audit program should be a higher priority, this recommendation has not been fully implemented.

Valuation Factors

RECOMMENDATION 12: Use the BOE's equipment index factors from AH 581 as intended.

Assessor's Response:

When taxpayers file their business property statements, they are reporting mixed types of equipment on schedule A in the equipment column. This information is not sufficiently detailed to accurately determine the type of equipment reported. We believe that for mass appraisal valuation, the averaging of general category types provides a correct value. In fact, Marshall and Swift states, "In specific instances where there is not a clear choice as to which of our forty-seven categories to use, we would then recommend that the Average of All would be as accurate as any to measure general cost changes. Some of our tables are an average of the Marshall &

Swift factors and some are straight from the Bureau of Labor and Statistics. We do use the tables as provided by the SBE for the three categories of computers. Overall, we feel that our method of valuation results in correct values.

Current Status:

We found that the methodology used in the development of the assessor's valuation factor tables has not changed since our prior survey report. However, starting with the 2002 lien date, the BOE has averaged commercial and industrial index factors into a single category of factors for each table in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*. Use of a single category of factors for commercial equipment and a single category of factors for industrial equipment will provide value estimates within a reasonable band of value for the assessment of business property and promote statewide uniformity.

Because of this recent change, our prior recommendation is no longer relevant.

Leased Equipment

RECOMMENDATION 13: Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

Assessor's Response:

Concur. We already track terminated leases in excess of \$100,000. Beginning with the 2000 filing, we will set up procedures to identify and track all leases terminated during the last year. We do not believe that we are missing any significant value because in many cases the equipment is turned back to the lessor, or has little value at the point when the lease is terminated.

Current Status:

Until the 2001-02 assessment year, the assessor tracked only those leases for equipment that cost in excess of \$100,000 and were reported by the lessor. For the remaining leasing companies, the assessor made no additional effort to obtain information about the ownership status of equipment going off lease. Unfortunately, only about 30 percent of leasing companies reporting to the assessor include a listing of terminated leases.

Beginning with the 2001-02 processing season, a new automated lease tracking system was implemented. Data from leasing companies that reported leased equipment to the assessor were either processed into the automated system using a computer diskette provided by the lessor or were keyed by hand into the automated system. As a result of this change, the computerized business property assessment system can now compare one year to another. Starting with the 2002-03 processing season, the assessor plans to compare the 2001-02 and 2002-03 business property statements. The assessor does not plan to investigate any leased equipment costing below \$50,000.

Although the assessor has not fully implemented our recommendation, he has significantly improved his program for assessing leased equipment. We encourage the assessor to continue his efforts to identify and assess all equipment retained by the lessee upon lease termination.

Racehorses

RECOMMENDATION 14: Audit racehorse owners as required by Property Tax Rule 1045.

Assessor's Response:

Concur. We only have two racehorse taxpayers in San Diego County who exceed \$2,000 in tax liability each year. One of these taxpayers reports approximately 298 horses each year, the other reports approximately 90 horses. Both of these taxpayers fall under the mandatory audit program for their personal property and fixtures. In the future, we will audit their earnings records as part of our mandatory audit. The dollar amount is insignificant.

Current Status:

In our 2000 survey report, we recommended that the assessor audit racehorse owners as required by rule 1045. There are two taxpayers owning racehorses having annual racehorse tax liabilities in excess of \$2,000. These taxpayers have been audited. The assessor uses a computer spreadsheet program to track racehorse and boarded horse returns.

This recommendation has been implemented.

Aircraft And Vessels

RECOMMENDATION 15: Verify whether aircraft and marine vessels that have full value of \$300,000 or more are subject to mandatory audit.

Assessor's Response:

Concur. Beginning with the year 2000, we will identify and audit the records of all aircraft and vessels used for business purposes. If the value exceeds \$300,000, we will make these accounts part of our mandatory audit program. We feel strongly that the amount that will be added to the roll is insignificant because we review market value data each year and we do not rely on cost to arrive at the assessed value.

Current Status:

The business property division has implemented procedures to identify aircraft and vessels that meet the mandatory audit guidelines of section 469. The assessor has determined that there are currently 76 aircraft and 41 vessel accounts that require mandatory audits. In an effort to be more efficient, the assessor now audits these accounts through the mail. An assessee who refuses to comply with the assessor's request for an audit by mail will be contacted to arrange an audit at the assessee's business location.

This recommendation should be fully implemented in the near future. The assessor anticipates that all aircraft and vessel audits will be completed by the end of 2002.

RECOMMENDATION 16: Require the notarization of the affidavit for historical aircraft exemption as required by section 220.5(c).

Assessor's Response:

Concur. For the 2000-filing year, we will require that the form be notarized or signed in front of a deputy assessor as required by section 220.5(c). Legislation has been proposed to allow this form to be signed under penalty of perjury rather than to have the affidavit notarized.

Current Status:

Starting with the 2000-01 lien date, the assessor no longer accepts improperly executed historical aircraft exemption claims. These claims must either be notarized or signed in front of a deputy assessor as required by section 220.5(c).

We found that about one-half of all historical aircraft exemption claims are now notarized and the remainder are executed by claimants in the assessor's office. Improperly executed claim forms are returned to claimants with the instruction to either have the claims notarized or to execute the claim in the assessor's office in the presence of a deputy assessor.

The assessor has fully implemented this recommendation.

RECOMMENDATION 17: Follow statutory guidelines when exempting late-filed documented vessel affidavits.

Assessor's Response:

Concur. Our policy has always been to consider any documented vessel affidavits that were not postmarked by the filing deadline of February 15 to be late. This will continue to be our policy. We will make additional efforts to insure compliance in the future.

Current Status:

At the time of our previous assessment practices survey, the assessor granted full exemption to owners of documented vessels who submitted unsigned affidavits or submitted those affidavits after the February 15 statutory deadline. As of the 2000 lien date, this practice has been discontinued. We found that for those affidavits filed between February 16 and August 1, after the statutory deadline, the assessor has reduced the exemption by 20 percent.

The assessor has fully implemented this recommendation.

APPENDIX

County Property Tax Division Survey Group

San Diego County Supplemental Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Mike Lebeau

Principal Property Appraiser

Supplemental Survey Team:

Peter Gaffney

Supervising Property Appraiser

Dale Peterson

Senior Specialist Property Auditor Appraiser

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

As noted in the Introduction to this report, the most recent survey report for San Diego County was published April 28, 2000 and included the assessor's initial response to the findings and recommendations contained in that report. The assessor also elected to file a response to this supplemental survey. His response begins on the next page.



COUNTY OF SAN DIEGO

GREGORY J. SMITH

ASSESSOR/RECORDER/COUNTY CLERK

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August 27, 2002

Charles Knudsen
Chief, County Property Tax Division
State Board of Equalization
Post Office Box 942879
Sacramento, CA 94279-0062

Dear Mr. Knudsen:

Pursuant to Section 15645 of the California Government Code, we are pleased to respond to the State Board of Equalization's Supplemental Assessment Practices Survey of this County. We appreciate the professionalism shown by the State Board staff, Peter Gaffney and Dale Peterson, during this process.

Generally, the comments expressed under Current Status in the Supplemental Survey are an accurate reflection of our office's progress on prior recommendations at the time of the Board staff visit. We have chosen to address only those areas where your staff has indicated we are not yet in full compliance with their recommendations. We will continue our efforts on the recommendations as time and resources allow.

I would also like to take this opportunity to thank my outstanding staff for their professionalism, dedication, and commitment in making this office one of the best run, if not the best, Assessor's offices in the State of California.

Sincerely,

GREGORY J. SMITH
County Assessor/Recorder/Clerk

GJS:jmr

- enclosures:
1. Response to resurvey by SBE - Realty Division
 2. Response to resurvey by SBE - Business Division

Response to resurvey by SBE Realty Division

Recommendation 4: Classify and enroll manufactured homes as personal property.

Response: As stated before, our current computer system is not capable of enrolling manufactured homes as personal property. We had our IT division do a preliminary study to determine the cost of modifying the current system to allow for the enrollment of manufactured homes as personal property. The estimated time was 4000-7900 hours at a total cost of approximately \$450,000. Given that a new integrated property tax system, capable of enrolling manufactured homes correctly, is being developed and will be operational within 2-3 years, we will continue to use our current system. We have met with the auditor-controller to develop a system to eliminate the possibility of special assessments being applied to manufactured homes. We feel we now have checks in place to prevent this from happening.

Recommendation 7: Appraise mineral properties as a unit.

Response: We concur. Rule 469(e)(1)(C) is very complicated in its recommended methodology. When asked for specific examples your survey team recommended that we visit Los Angeles County to review their methodology. We had a commercial supervisor and a senior appraiser visit Los Angeles and review how their office appraises mineral properties as a single unit. In the future mineral properties will be valued as an appraisal unit and compared with the base year value to determine the proper enrollment.

Recommendation 9: Identify and assess all taxable improvements and water rights on water company property.

Response: The field inventory is essentially complete. The business division mailed form BOE-540-S to the owners of the 152 water companies for the 2001-02-assessment year. The initial response rate was less than 50 %. We expect this percentage to improve as the people become familiar with the annual form. Escapes have not been processed yet because we want to make sure there are no double assessments. The realty division is carefully reviewing all records to see what is already being assessed. The realty and business divisions are coordinating to make sure improvements are correctly classified and enrolled by the proper division. We expect to complete these tasks and have all proper escapes completed by the end of this fiscal year. We expected the amount of any assessments to be small and allocated our staff to higher priorities in closing the 2001-02 roll.

Response to resurvey by SBE Business Division

Recommendation 10: Bring the mandatory audit program to current status.

Response: In an effort to eliminate the backlog of mandatory audits we have taken the following steps – (1) For the 2002 processing season, we had 4 additional auditors continue to audit rather than assisting with the statement processing, (2) For the 2002-2003 budget, we have added two auditor positions. This will bring our staff of auditors to 26. These steps should allow us to eliminate the mandatory audit backlog.

Recommendation 11: Expand the non-mandatory audit program.

Response: Each year we are identifying 50 non-mandatory accounts from a variety of value ranges. We are auditing as many of these as we can get to during the audit season. However, we feel it is imperative that our focus remains on eliminating the backlog of mandatory audits.

Recommendation 13: Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

Response: We are continuing to use the automated leasing system to compare current year lessees with prior year lessees in an effort to track terminated leases. We are currently investigating all leases with a value over \$50,000. We will investigate all remaining leases as staff time permits.

Recommendation 15: Verify whether aircraft and marine vessels that have full value of \$300,000 or more are subject to mandatory audit.

Response: All auditable boats and aircraft are identified each year and will be audited every four years. We have instituted a mail audit program for these accounts.